

# Rio Algom Mining Corp.

Marvin D. Freeman  
Vice President

September 21, 1993

Via Facsimile:

Mr. Roy Smith  
Kerr-McGee Corporation  
P.O. Box 25861  
Oklahoma City, OK 73125

Dear Roy:

Re: Church Rock Mines

Receipt is acknowledged of your letter of September 17th and of copies of Kerr-McGee's letters to the Mines and Minerals Division of the New Mexico Department of Energy, Minerals and Natural Resources dated June 17th and September 16th.

The reference in my September 16th letter to the mines being Kerr-McGee Corporation and not Quivira Mining Company was directed chiefly to the New Mexico Mining Law which requires the "owner/operator" to register the mines, although the "owner/operator" term has not yet been defined.

[ It was our interpretation that since Kerr-McGee Corporation was the owner in that the Navajo Leases were taken and remained in that name and since Kerr-McGee Corporation was the "operator" when the mine was "in operation" since Bill Young and his staff were on the Kerr-McGee Corporation payroll, that the "owner/operator" responsibility to register fell to Kerr-McGee. ]

As to the sales contract, Section 10.02 does state that Rio will be responsible for the first \$750,000 of the CR&IP reclamation cost which was done. It is our interpretation, however, that this was done, if you will, as agent for Kerr-McGee as Rio never took title to nor operated the lands referred to as Indian Properties described in Section 1.19 and Exhibit 5. Rio did take title to the lands described in Section 1.08 and Exhibit 2 but these lands are not on the Reservation and are not part of the Church Rock mines.

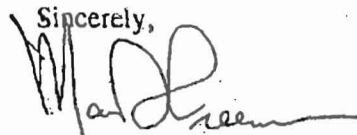
I believe Kerr-McGee is incorrect about the significance of the statements in my letter and about the construction of the Purchase and Sale Agreement and the significance of Kerr McGee's conducting the Church Rock and Indian Properties Reclamation. I believe that the correct interpretation of Kerr McGee's responsibilities are set forth in our letter of September 21, 1993 which we will be sending to the Department, a copy of which is enclosed. We believe that Kerr-McGee retained all those stated responsibilities for

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ownership, operation and reclamation. But the issue at present is simply what should be done regarding the registration portion of the New Mexico Act.

We still believe the registration and reclamation obligations, if any, are Kerr-McGee's obligations. However, since Kerr-McGee apparently has elected not to register the mines with the State of New Mexico under a reservation of rights, Rio will provide the information to the Department on a "non-waver" basis, as indicated in the enclosed letter, as I do not believe either company wants to run the risk of being subject to a non-compliance penalty of "up to \$10,000 per day."

Sincerely,



Maryin D. Freeman

MDF/jh  
cc: R. Luke

# Rio Algom Mining Corp.

Marvin D. Freeman  
Vice President

June 14, 1994

Kerr-McGee Corporation  
Attn: Mr. Roy R. Smith  
P.O. Box 25861  
Oklahoma City, OK 73125

Re: Church Rock Mines

Dear Roy:

Rio Algom's position with regard to the Church Rock Mines remains unchanged and is as set forth in our prior correspondence. In regard to the Church Rock Mines, the Purchase and Sale Agreement makes clear distinction throughout the document between the Indian Properties (Church Rock Mines) and the other properties, beginning in the definition section. The Agreement also includes copies of the Indian Property leases in Exhibit 5 which were granted to the Kerr-McGee Corporation by the BIA. These leases were released back to BIA, or the Tribe in April 1987, almost two (2) years prior to the sale of Quivira to Rio Algom.

I believe the underlying basis for liabilities assumed by Rio and why Rio paid the initial \$750,000 worth of the Indian Property reclamation is explained in Section 10 of the Agreement which says in part:

*...In negotiating the Purchase Price and other terms of this Agreement, the parties have estimated the future liability for Reclamation on the Real Properties and the Indian Properties as a result of operations on or events or conditions affecting those properties to date and have agreed that such costs will be borne by Quivira and Rio after the Closing to the extent and only to the extent specifically provided herein and that Seller shall bear any costs of Reclamation relating to operations on or events or conditions affecting those properties conducted prior to the Closing Date other than the costs that Quivira and Rio are to bear under this Section 10... [Emphasis Added]*

Section 10.2 also specifically sets forth Rio's commitment regarding the initial \$750,000 of the Indian Property reclamation costs.

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Kerr-McGee, in mid-1992, elected to take over direction and management of the remaining Indian Property remediation and since that time Kerr-McGee has had exclusive control of all activities related to the Indian Properties. Rio/Quivira has not been a party to nor has it attended any of Kerr-McGee's subsequent meetings with the Tribe, BIA, or other governing agencies since that date. Rio believes Kerr-McGee properly assumed control of activities related to the Indian Properties by notifying Rio of its intent and has confirmed that control by its subsequent actions.

Rio does believe, however, that if it is required to respond to the State under the recently passed New Mexico Mining Act regulations regarding the Church Rock Mines, that an equitable portion of the costs incurred by Rio for monitoring the development of the regulations, providing input through the New Mexico Mining Association, attending hearings, and developing and presenting testimony (which include salaries, burden, travel expenses, legal fees, and overhead) should be allocated to the Church Rock Mines and such past costs and future costs would then be billed to Kerr-McGee as provided for in the Agreement.

Hopefully the above adequately addresses the questions presented in your letter of May 23, 1994.

Sincerely,

  
Marvin D. Freeman

MDF/ps

bcc -

D. Kavanaugh  
R. Luke  
B. Ferdinand